TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1839 - HB 2158

January 31, 2016

SUMMARY OF BILL: Authorizes any member or retired member of the armed forces of the United States that served during certain specified periods of armed conflict to establish retirement credit for military service without charge to the member under certain specified circumstances. Expands the definition of "armed conflict".

Requires the chief governing body of any employer wishing to adopt this entitlement to pass a resolution authorizing and accepting the liability associated with the granting of the retirement credit. Requires the governing body to either pay the increased liability in a lump sum or through an increased contribution rate for a period not to exceed 12 months. Declares that no former or current employee of the employer shall be permitted to establish the service credit authorized by the act until the estimated increased pension liability has been completely funded by the employer. Requires that the retirement system actuary determine the estimated increased pension liability and the associated increased contribution rate for the employer.

States that the legislative intent is that the increased pension liability for state employees be completely funded by an increase in the employer contribution rate for FY16-17 and not be amortized, and the increased pension liability relative to teachers be funded based on a 20-year amortization period for FY16-17 with the remaining liability completely funded in FY17-18.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures – $1,755,700/FY16-17
$1,512,300/FY17-18

Increase Federal Expenditures – $530,400/FY16-17

Increase Local Expenditures – $109,700/FY16-17*
$1,008,200/FY17-18*

Other Fiscal Impact – The total additional lump sum pension liability to the Tennessee Consolidated Retirement System is estimated to be $4,916,400.

Assumptions:

- According to the Tennessee Consolidated Retirement System (TCRS), the total increase of liability to the pension system relative to eligible state employees is estimated to be $2,121,685.
- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds.
- An increase in state expenditures in FY16-17 of $1,591,264 ($2,121,685 x 75.0%) for state employees.
- An increase in federal expenditures in FY16-17 of $530,421 ($2,121,685 x 25.0%) for state employees.
- According to TCRS, the total increase of liability to the pension system relative to eligible teachers is estimated to be $2,794,710.
- Based on time-value-of-money calculations using a 20-year amortization and a 7.5 percent interest rate for estimating the FY16-17 impact relative to eligible teachers, the first year increase in expenditures is estimated to be $274,139.
- The remaining liability to be paid in FY17-18 is estimated to be $2,520,571 ($2,794,710 - $274,139).
- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent local government funds, all of which will be a mandatory increase in local government expenditures.
- An increase in state expenditures in FY16-17 of $164,483 ($274,139 x 60.0%).
- A mandatory increase in local expenditures in FY16-17 of $109,656 ($274,139 x 40.0%).
- An increase in state expenditures in FY17-18 of $1,512,343 ($2,520,571 x 60.0%).
- A mandatory increase in local expenditures in FY17-18 of $1,008,228 ($2,520,571 x 40.0%).
- A total increase in state expenditures in FY16-17 of $1,755,747 ($1,591,264 + $164,483).

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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